

A Work Project, presented as part of the requirements for the Award of a Master Degree in Finance from the
NOVA – School of Business and Economics.

VERALLIA SAS, A LEADER IN GLASS PACKAGING
—
ILLUSTRATIVE ACQUISITION OF SAVERGLASS
SAS

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Abstract

Due to the dynamics of the glass packaging market, Verallia competes with large international players as well as small domestic competitors. When looking at the transaction history of the top five players since 2005, one can analyse that, especially in Europe, there has been a strong consolidation within the industry, as reflected by c. 71% of the market being covered by respective players. Therefore, since organic market share gains are for the above stated reason rather not feasible, the following report analyses the strategic rationales and potential impact of the acquisition of a mid-market company by Verallia.

Keywords:

- Glass packaging competitive landscape
- Industry consolidation
- Mergers & Acquisitions

This report is part of the “Verallia SAS, a leader in glass packaging” equity research report (annexed) and should be read as an integral part of it.

Table of Contents








































































































































































































































































































































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|---|-----------|
| GLASS PACKAGING – COMPETITIVE LANDSCAPE | 5 |
| M&A SCENARIO ANALYSIS – SAVERGLASS..... | 7 |
| EXCURSUS – GLASS PACKAGING INDUSTRY CONSOLIDATION..... | 8 |
| SAVERGLASS AT A GLANCE | 9 |
| MERGER CONTROL..... | 10 |
| STRATEGIC RATIONALES | 11 |
| INDICATIVE VALUATION OF SAVERGLASS AS OF DEC-20..... | 13 |
| MERGER MODEL – INPUT ASSUMPTIONS AND IMPLICATIONS..... | 13 |
| <i>Potential financing structure of the acquisition</i> | <i>14</i> |
| <i>NewCo synergy and value creation analysis.....</i> | <i>15</i> |
| <i>Recommendation for the proposed transaction</i> | <i>18</i> |


Glass packaging – competitive landscape

Verallia competes with local players as well as international corporations

Verallia is the largest producer of glass packaging in Europe and the third biggest worldwide, operating in three main regions – SWE, NEE and LA. Due to the different market dynamics, with Europe being a consolidated market while the market in Latin America is still rather fragmented, Verallia competes with international corporations such as Vetropack, BA Glass, Ardagh Group, OI-Glass and Wiegand Glass as well as local companies, such as Cattorini (Argentina) or Cristoro (Chile), partially as the high cost of transportation, for a relatively low unit value, makes long-distance transport unviable. **Table 1** further illustrates Verallia's competitive landscape and competitors' end-markets.

Table 1: Illustrative competitive landscape in the glass packaging industry

| Food & beverage industry | | | | | | | | | | | | | | | | | | |
|--|---|----------|-------------|--------|---|---|---|---|---|---|---|---|---|---|---|--|--|--|
| Company | Revenue (in €m) | EBITDA % | EBIT % | Pharma | Cosmetic | Perfume | Still Wine | Sparkling Wine | Spirits | Beer | Soft Drinks | Food | Oils and Vinegars | House-ware | | | | |
|  |  | 5,962 | 15.8% | 9.3% |  |  |  |  |  |  |  |  |  |  |  | | | |
|  Glass Business |  | 2,930 | 20.4% | n/a |  |  |  |  |  |  |  |  |  |  |  | | | |
|  |  | 2,586 | 22.4% | 11.4% |  |  |  |  |  |  |  |  |  |  |  | | | |
|  |  | 1,011 | 26.7% | 17.8% |  |  |  |  |  |  |  |  |  |  |  | | | |
|  |  | 923 | 32.8% | 23.1% |  |  |  |  |  |  |  |  |  |  |  | | | |
|  |  | 664 | 23.2% | 12.5% |  |  |  |  |  |  |  |  |  |  |  | | | |
|  |  | 645 | 28.0% | 17.8% |  |  |  |  |  |  |  |  |  |  |  | | | |
|  |  | 500 | n/a | n/a |  |  |  |  |  |  |  |  |  |  |  | | | |
|  |  | 500 | 10.0% | 6.7% |  |  |  |  |  |  |  |  |  |  |  | | | |
|  |  | 424 | n/a | n/a |  |  |  |  |  |  |  |  |  |  |  | | | |
|  |  | 349 | 19.0% | 12.6% |  |  |  |  |  |  |  |  |  |  |  | | | |
|  |  | 339 | n/a | n/a |  |  |  |  |  |  |  |  |  |  |  | | | |
|  |  | 324 | 25.8% | 13.8% |  |  |  |  |  |  |  |  |  |  |  | | | |
|  |  | 312 | 17.7% | 9.0% |  |  |  |  |  |  |  |  |  |  |  | | | |
| VERESCE |  | 305 | n/a | n/a |  |  |  |  |  |  |  |  |  |  |  | | | |
|  |  | 241 | 15.9% | 8.8% |  |  |  |  |  |  |  |  |  |  |  | | | |
|  |  | 231 | 20.4% | 9.2% |  |  |  |  |  |  |  |  |  |  |  | | | |
|  |  | 195 | 25.2% | n/a |  |  |  |  |  |  |  |  |  |  |  | | | |
|  |  | 135 | 4.0% (2.1%) | |  |  |  |  |  |  |  |  |  |  |  | | | |
|  |  | 120 | n/a | 7.3% |  |  |  |  |  |  |  |  |  |  |  | | | |
|  |  | 77 | 22.5% | 8.0% |  |  |  |  |  |  |  |  |  |  |  | | | |
|  |  | 73 | n/a | 9.7% |  |  |  |  |  |  |  |  |  |  |  | | | |
|  |  | 67 | 25.5% | 13.2% |  |  |  |  |  |  |  |  |  |  |  | | | |
|  |  | 52 | 39.7% | 15.8% | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | | | |
|  |  | 30 | n/a | n/a |  |  |  |  |  |  |  |  |  |  |  | | | |
|  |  | 5 | n/a | 4.5% |  |  |  |  |  |  |  |  |  |  |  | | | |
|  | | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | | | |

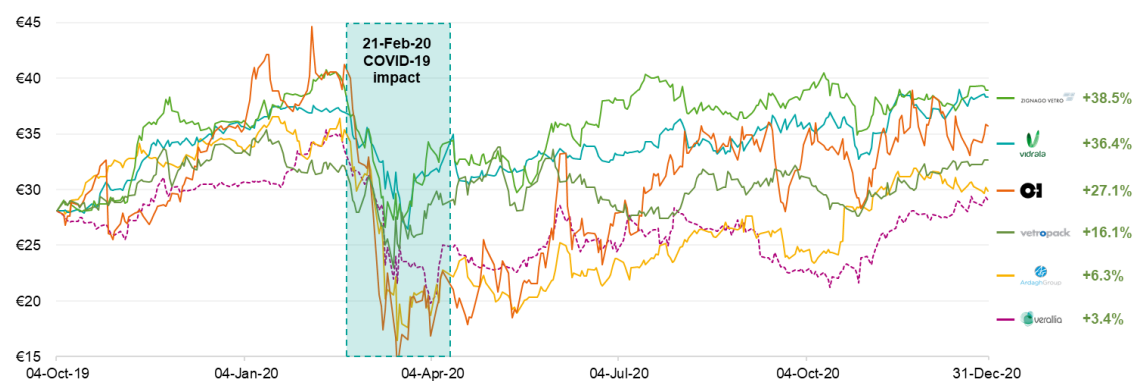
Direct competitor of 

Direct competitor of Verallia

Source: Own analysis, company information

Verallia's share price underperformed compared to its competitors since IPO

Figure 1: Share price performance since Verallia's IPO (rebased to Verallia)

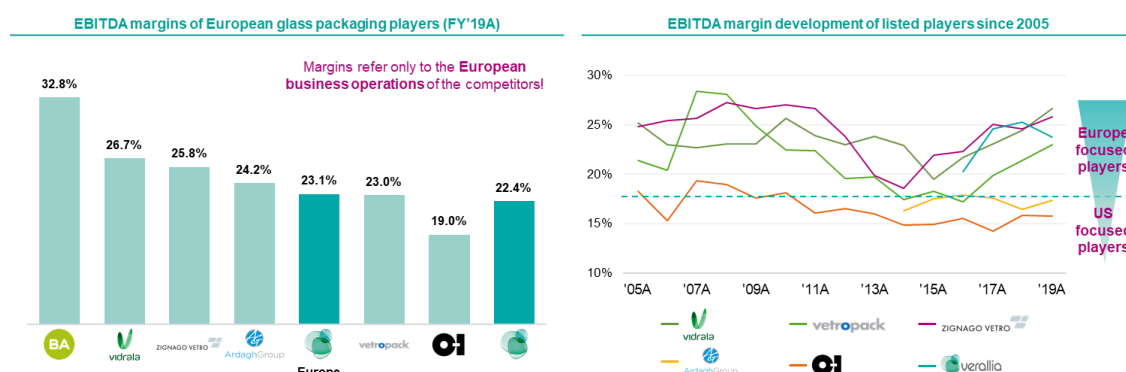


Source: CapitalIQ as per 31-Dec-20

As shown in the figure above, all major listed glass packaging players have suffered large losses in mid-2020 due to the global COVID-19 pandemic. However, while all players have recovered to their respective share price levels around Verallia's IPO date and up to 38.5% beyond, it is worth

noting that Verallia itself only marginally increased its share price by 3.4%.

Figure 2: EBITDA margin development of European glass packaging players



Source: Own analysis and research, CapitalIQ, company information

Table 2: Competitor benchmarking of listed glass packaging providers (as of FY'19)

| Company | DSO | DIO | DPO | CCC | COGS % of sales | Gross profit % of sales | SG&A % of sales | EBITDA % | Capex % of sales '17A | Capex % of sales '18A | Capex % of sales '19A | Net debt/EBITDA |
|---------------|-----|-----|-----|-----|-----------------|-------------------------|-----------------|----------|-----------------------|-----------------------|-----------------------|-----------------|
| vidrala | 83 | 195 | 173 | 105 | 35.2% | 64.8% | 19.5% | 26.7% | 10.5% | 10.4% | 10.3% | 1.2x |
| vetropack | 62 | 199 | 127 | 134 | 33.4% | 66.6% | 23.5% | 23.0% | 9.6% | 15.5% | 16.5% | n/m |
| ZIGNAGO VETRO | 81 | 186 | 138 | 129 | 51.1% | 48.9% | 22.6% | 25.8% | 21.8% | 27.2% | 14.3% | 2.4x |
| ArdaghGroup | 45 | 73 | 93 | 26 | 84.0% | 16.0% | 4.9% | 17.3% | 6.1% | 7.0% | 7.5% | 4.6x |
| OI | 32 | 69 | 86 | 15 | 81.9% | 18.1% | 6.5% | 15.8% | 6.4% | 7.8% | 6.4% | 4.6x |
| verallia | 17 | 83 | 72 | 28 | 70.6% | 29.4% | 6.5% | 22.4% | 9.8% | 9.3% | 9.8% | 2.8x |

Source: Own analysis, CapitalIQ as per 31-Dec-20

Figure 2 gives an overview of the EBITDA margins of the European businesses of the largest players as well as the historical EBITDA margin development of listed glass packaging players since 2005. **Table 2** goes more into detail, by comparing main financial performance indicators of listed competitors with Verallia, as further analysed in the following.

Verallia's efficiently manages its working capital by using factoring

Low payables outstanding period offers room for further efficiency improvements

Verallia's **working capital management** is in the upper range. Verallia possesses the lowest **collection period** among its competitors, which contributes significantly towards a low cash conversion cycle and lower need for external financing to fund daily operations. The fast collection period is mainly driven by Verallia's significant engagement in receivables factoring amounting to roughly €483m in FY'19. In terms of the **inventory held period**, Verallia's management aims for future reductions, as a result of ongoing evaluations and the implementation of further efficiency measures. Finally, Verallia's **payables outstanding period** is the shortest among its competitors, offering significant room for improvement through the renegotiation of supplier contracts and therefore, further lowering the requirement for external capital funding.

While for all in **Table 2** presented metrics, one can analyse clear differences based on the company's regional focus on either the US or Europe¹, we believe these differences only for the following metrics to be noteworthy.

In terms of main cost items, **COGS** and **SG&A** figures are not comparable across regions, as US focused players and Verallia include most of the personnel expenses in COGS, whereas Europe focused players incorporate a higher amount of personnel expenses in the SG&A figure.

¹ Competitors mainly active in the US include Ardagh Group and OI-Glass, while Vidrala, Vetropack, Zignago Vetro and Verallia operate mainly in Europe

European players show higher EBITDA margins compared to US focused competitors

Glass packaging in Europe is more capital-intensive than in the US

Regional focus seems to also play a role in terms of leverage

Additionally, as shown in **Table 2**, the general level of costs for US focused players is higher (~89% vs. ~62% in Europe), which is reflected in respectively lower **EBITDA margins** compared to Europe focused competitors. Margins in Europe comfortably surpass US ones by up to ~11%, with most European players having margins in the mid 20% range.

Capex needs also differ between US or Europe focused players. While US focused players show an average Capex of between ~6% and ~7% of their sales depending on the year, Europe focused players invest more, with Capex levels averaging between ~14% and ~18% of sales. It is noteworthy that Verallia's Capex levels were relatively low compared to competitors in Europe historically, mainly driven by the execution of several efficiency initiatives as part of the ongoing implementation of the company's Performance Action Plan (PAP), which comprises 500 initiatives aimed at reducing cash production costs and Capex spending. In terms of Capex, the PAP initiatives yielded higher production capacities of various plants, totalling 48kT in FY'19, without the need of additional investments.

Finally, the regional focus of the glass packaging players also seems to significantly affect the **leverage ratio**. While Europe focused players, including Verallia, have rather low Net debt/EBITDA ratios ranging from 1.2x to 2.8x, US-focused players operate with an average leverage multiple of 4.6x.

M&A Scenario Analysis – Saverglass

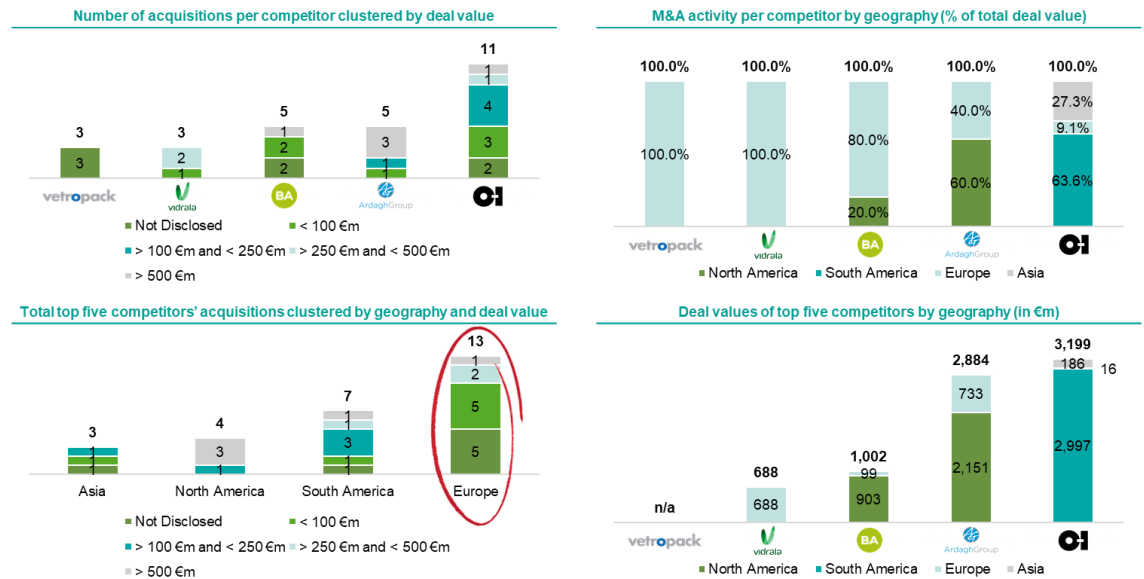
The glass packaging industry is characterised by a strong consolidation trend as further detailed in the next section, making suitable acquisition targets a rare opportunity. As of Feb-20, Mergermarket stated that Carlyle is expected to explore a sale of its in 2016 acquired French premium glass packaging portfolio company Saverglass. The article cited six sources that are familiar with the matter. The sale could launch as early as in H2 2020 with an estimated enterprise value of €600m, according to one source. Five sources cited Verallia as a potential comparable, while the sale is expected to attract a broad universe of potential investors, including private equity players. The article named OI-Glass and Vidrala as other potential comparables. Due to Saverglass' focus on premiumisation, French background, and domestic production sites and Verallia's declared intention to evaluate potential acquisition opportunities, we believe it is worth exploring the implications and value creation of such acquisition in the following. However, at this stage, we want to point out that, as Saverglass is a French private company, the data available from the company is limited to its company website as well as its financial statements.² Therefore, the following analysis was only conducted for illustrative purposes and cannot be compared with acquisition calculations, which are based on more comprehensive public or privately available data.

² Financial statements taken from CapitalIQ, no notes on the financial statements or similar information publicly available

Excursus – Glass packaging industry consolidation

Significant consolidation within industry since 2005 support stable market shares in maturing industry

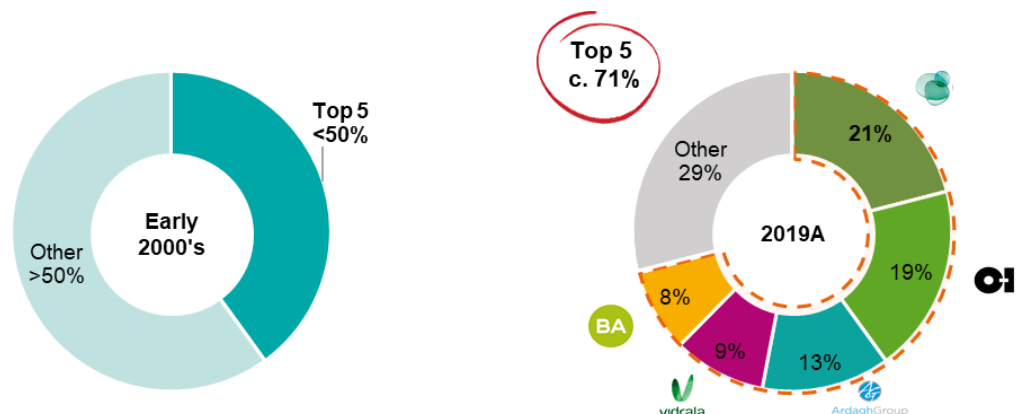
Figure 3: Acquisitions of Verallia's top five competitors since 2005



Source: Own analysis, Mergermarket

Over the last two decades, the competitive landscape of Verallia has changed a lot, mainly driven by a strong industry consolidation in Europe. Accordingly, the market share of the top five players in Europe increased from <50% in the early 2000's, to roughly 71% in 2019 (Figure 4). Analysing the transaction history of Verallia's top five competitors, our findings are backed by raw data shown above, further highlighting the industry consolidation across different regions. As shown in Figure 3, most of the transactions took place in Europe and Latin America. Moreover, when analysing the transaction history of the respective competitors, it is noteworthy that OI-Glass, Ardagh Group as well as BA Glass lead the consolidation, by closing 11, 5 and 5 deals with accumulated deal values of €3.2bn, €2.9bn and €1.0bn since 2005, respectively. In contrast, even though Verallia has confirmed its desire to acquire mid-market companies in the H1 2020 earnings press conference, Verallia has not made acquisitions since the company was carved out from the Saint Gobain conglomerate and acquired by Apollo in 2015. While suited opportunities are becoming rare in Europe due to the consolidated nature of the industry, we see significant acquisition opportunities of mid-market companies in existing markets in Latin America as well as expansion opportunities to new markets, such as China and Mexico.

Figure 4: European food & beverage glass packaging market



Source: Verallia, own estimates

Finally, **Table 3** summarises precedent transactions in the glass packaging industry since 2005.

Table 3: Precedent transactions in the glass packaging industry since 2005

| Announced | Target | Description | Target country | Bidder | Bidder country | EV (€m) | EV/EBITDA | EV/EBIT | EBITDA % | EBIT % |
|---------------|--|--|----------------|---|----------------|---------|-------------|--------------|--------------|--------------|
| 14/12/2020 | Veralia (10% Stake) | France-based company that manufactures and supplies glass bottles and jars | FR | BW Gestao de Investimentos | PT | 4,926 | 9.8x | 16.7x | 22.4% | 11.4% |
| 15/07/2020 | O-I Glass (ANZ Business) | Glass bottles and containers manufacturer | AU | Visy Industries Australia | AU | 450 | 5.9x | n/a | 16.4% | n/a |
| 02/11/2016 | Anchor Glass | Manufacturer and distributor of glass containers | US | BA Glass, CVC | US | 903 | 7.1x | n/a | n/a | n/a |
| 10/10/2016 | Stirom (85.59% Stake) | Producer of glass articles and packaging, for food, beverage and industrial customers | FR | BA Glass | FR | 82 | 5.6x | 12.9x | 26.4% | 11.5% |
| 18/03/2016 | Saverglass | Manufacturer and distributor of luxury glass bottles and decanters | FR | The Carlyle Group | US | 560 | n/a | n/a | n/a | n/a |
| 28/08/2015 | Vitro, S.A.B. de C.V. (19.25% Stake) | Engaged in manufacturing and supplying glass | MX | David Martinez Guzman (Private Investor) | MX | 2,184 | 8.0x | 12.7x | 20.1% | 12.6% |
| 08/06/2015 | Veralia | Manufacturer of glass bottles and jars | FR | Apollo Global Management | US | 2,945 | n/a | n/a | n/a | n/a |
| 13/05/2015 | Vitro, S.A.B. de C.V. (food and beverage container business) | Vitro's food and beverage glass container business | MX | O-I Glass | US | 1,919 | 11.2x | 16.1x | 24.9% | 17.3% |
| 14/01/2015 | Encirc | Manufacturer of container glass | UK | Vidrala | ES | 407 | 7.2x | 18.4x | 17.8% | 7.0% |
| 27/09/2013 | Cospak (35% Stake) | Manufacturer and distributor of glass and plastic containers to wine, food, beverage, and pharma | FR | San Miguel Yamamura Packaging Corporation | PH | 31 | 10.8x | 15.3x | 5.9% | 4.1% |
| 14/01/2013 | Veralia North America | Producer of glass products including bottles, jars and other containers | US | Ardagh Group | US | 1,267 | 6.5x | 9.9x | 16.1% | 10.5% |
| 17/07/2012 | Anchor Glass | Manufacturer and distributor of glass containers | US | Ardagh Group | US | 721 | n/a | n/a | n/a | n/a |
| 26/07/2011 | Verrerie du Languedoc | Manufacturer of glass bottles for both mineral water and local wine brands | FR | O-I Glass | US | 16 | 18.7x | n/a | 1.7% | (6.8%) |
| 31/05/2011 | Owens-Illinois do Brasil | Manufacturer of glass packaging products | BR | O-I Glass | US | 463 | 8.3x | 9.1x | 18.4% | 16.7% |
| 06/05/2011 | Saverglass | Manufacturer and distributor of luxury glass bottles and decanters | FR | Astorg Partners | FR | 350 | n/a | n/a | n/a | n/a |
| 27/06/2008 | Orehovo-Zuevskaya Stekolnaya Kompania ZAO | Producer of glass containers | RU | Capital International Private Equity Fund | US | 85 | 16.9x | 17.2x | 13.8% | 13.3% |
| 05/09/2007 | La Manufacture du Verre (51.76% Stake) | Glass manufacturer | FR | Vidrala | ES | 54 | n/a | n/a | n/a | n/a |
| 12/03/2007 | Rexam (glass business) | Glass container business of Rexam Plc | UK | Ardagh Group | US | 660 | 5.7x | n/a | 18.1% | n/a |
| 15/02/2007 | Verescence (80% Stake) | Glass packaging company engaged in production of glass flasks used in the perfume and pharma | FR | Sagard Private Equity Partners | FR | 690 | n/a | n/a | n/a | n/a |
| 18/12/2006 | Consol Glass | Manufacturer of glass packaging solutions and recovering, and recycling of used glass bottles and jars | US | Newshelf 809 Limited | US | 685 | 8.7x | 12.4x | 29.9% | 21.0% |
| Median | | | | | | | 8.1x | 14.1x | 18.1% | 11.5% |

Source: Mergermarket

Saverglass at a glance

Saverglass is a manufacturer of glass bottles for the premium and ultra-premium market

Saverglass is an industrial group, based in Feuquières, France, and a specialist in producing, decorating, and customising modern, versatile and original high-end and luxury glass bottles for wines and spirits and employs approximately 3,500 employees. Saverglass provides its products to the prestige spirit, fine wine, sparkling wine, champagne, premium and super-premium markets and offers a product portfolio of over 250 lines with products ranging from 5cl to 6l volume.

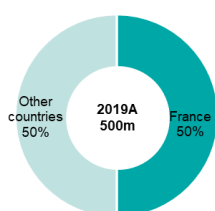
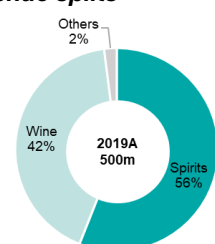
Table 4: Saverglass' positioning in the glass bottle market



Source: Saverglass

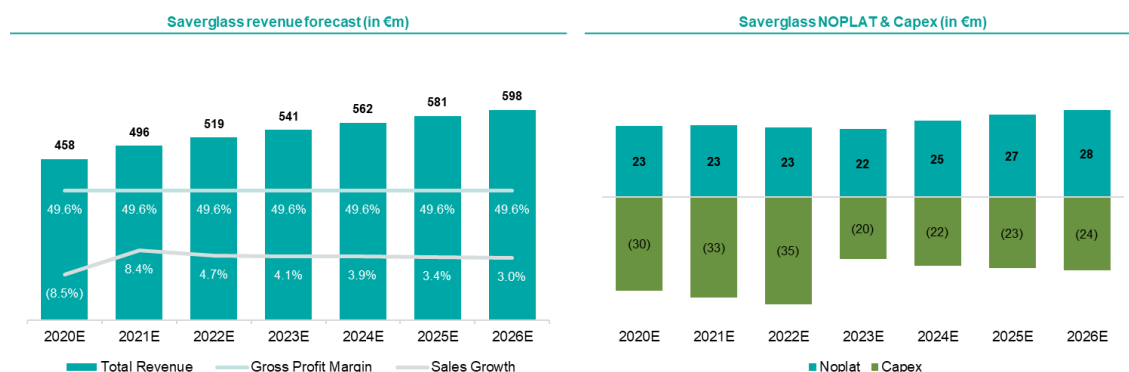
Saverglass customers include, among others, Rémy Cointreau, Pernod Ricard, Campari, Martini, Diageo, Hennessy, Bacardi and Grey Goose vodka. Apart from exporting to over 100 countries, the company operates six glass production factories and four decoration sites on three continents and is represented in over ten countries including Europe, Russia, Mexico, the Caribbean, the US, Central America, New Zealand, Australia and South Africa. The company, with production volume of 500kT/year, generated €500m in revenue in FY'19.

Figure 5: Saverglass revenue splits



Source: Saverglass

Figure 6: Saverglass key financials



Source: Own analysis and estimates

On a general note, the aim of the following analysis is the illustration of the potential acquisition scenario and not the valuation of Saverglass itself. Hence, the respective valuation will not be further detailed as in the respective section. For detailed financial statements, please refer to the **Appendix**.

Merger control

As every merger or acquisition above a certain size is subject to antitrust approval, we believe it to be appropriate to briefly address current regulations. Generally, as this acquisition would mainly concern the EU, either the local competition authorities or when certain criteria are met, the EU Commission examines the transaction based on the Council Regulation (EC) No 139/2004. The proposed acquisition of Saverglass falls within the authority of the EU Commission, since 1) the combined turnover of the NewCo exceeds €2.5bn 2) the NewCo generates over €100m in revenue per member state in three EU member states 3) each company generates over €100m in revenue in EU member states and 4) both companies each generate over €25m in revenue in three member states. Finally, the main goal of the EU Commission is to maintain competition on the market, to avoid the creation of dominant corporations, which could increase prices for the general consumer. Based on this general principle and after an investigation, the EU Commission either clears the merger, prohibits the merger, or approves the acquisition based on certain commitments (remedies) of the two parties. As further shown in **Figure 4** and based on our estimated market shares (**Figure 10**), we believe the European glass packaging market still experiences significant competition after the transaction, especially from OI-Glass, Ardagh Group, Vidrala, BA Glass and Vetropack, which all possess significant market share and, therefore, see no reason for the proposed transaction not to be cleared. Moreover, as the implied market shares of Saverglass in **Figure 10** was based on Verallia's total addressable market³, which does just partially (only Europe and Russia) match the total addressable market of Saverglass due to its operations in e.g., Mexico, the Caribbean, the US, Central America, New Zealand, Australia and South Africa, the real post-transaction market share gain of Verallia is estimated to be lower, which, thus, may give the respective competition authorities little room for concerns with regards to the proposed transaction. However, this evaluation solely reflects our opinion, which is by no means indicative for the final decision of competition authorities investigating the proposed transaction.

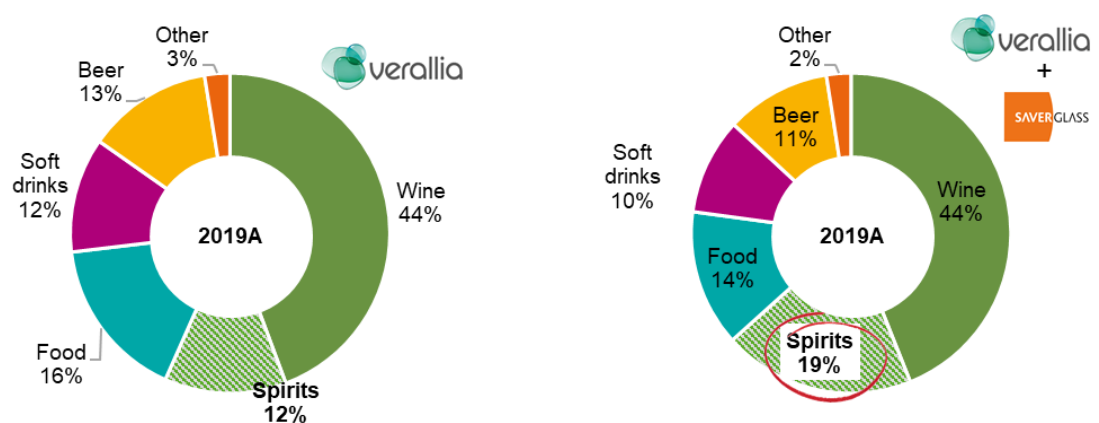
³ Total addressable market refers to the sum of market values of all countries Verallia operates in (Southern and Western Europe (SWE), Northern and Eastern Europe (NEE) and Latin America (LA)). Market shares are based on the by each company generated revenue, in relation to the total addressable market size

Strategic rationales

There has been no update on whether a sale process for Saverglass has already been launched or if Carlyle's plans regarding the rumoured sale have changed in the light of the global COVID-19 pandemic. Nevertheless, we identified several qualitative as well as quantitative rationales for Verallia that would support exploring the acquisition of Saverglass once the asset is on the market, depending on the acquisition price. As a general note, we want to mention again that Saverglass is a private company and thus, to date, investors could not invest in Saverglass on a standalone basis.

- **Acquisition supports trend for premiumisation:** The market volume growth for vodka and gin in the premium segment is expected to outperform the growth of standard products, achieving CAGRs of 4.6% and 4.8% between 2020 and 2024, while the total market volume for vodka and gin is expected to grow with CAGRs of only 1.3% and 4.0%, respectively. Likewise, the market for premium and above wines is estimated to grow with a CAGR of 2% between 2018 and 2023, compared to a CAGR of -1% for standard and value wines according to Wine Intelligence estimates. Since Saverglass is exclusively focused on high-end bottles and distributes its activities only in the wine and spirits sector, Verallia could accelerate further growth by acquiring Saverglass.

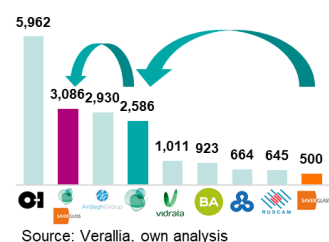
Figure 7: Verallia vs. NewCo pro-forma revenue split



Source: Verallia, own analysis

- **More favourable revenue split:** Due to Saverglass' focus on wine and spirits for the premium, ultra-premium and prestige bottle market, Verallia will be exposed to a more favourable product mix due to the aforementioned higher growth estimates. (**Figure 7**)
- **Becoming the global #2 player:** While Verallia has a leading position in all major markets the company operates in, being the #1 player in Europe, the #2 player in Latin America and the #3 player globally⁴, an acquisition of Saverglass would increase Verallia's yearly sales volume by 500kT, making the company effectively surpass Ardagh Group's glass packaging business in terms of revenue and, therefore, becoming the global #2 glass packaging player with only OI-Glass still being significantly ahead. (**Figure 8**)
- **Further penetration of new markets:** While Verallia currently focuses on certain countries in Europe and Latin America, the acquisition of Saverglass could diversify Verallia's geographical footprint by enabling market entry into new markets, namely Australia, Central

Figure 8: Illustrative market overview

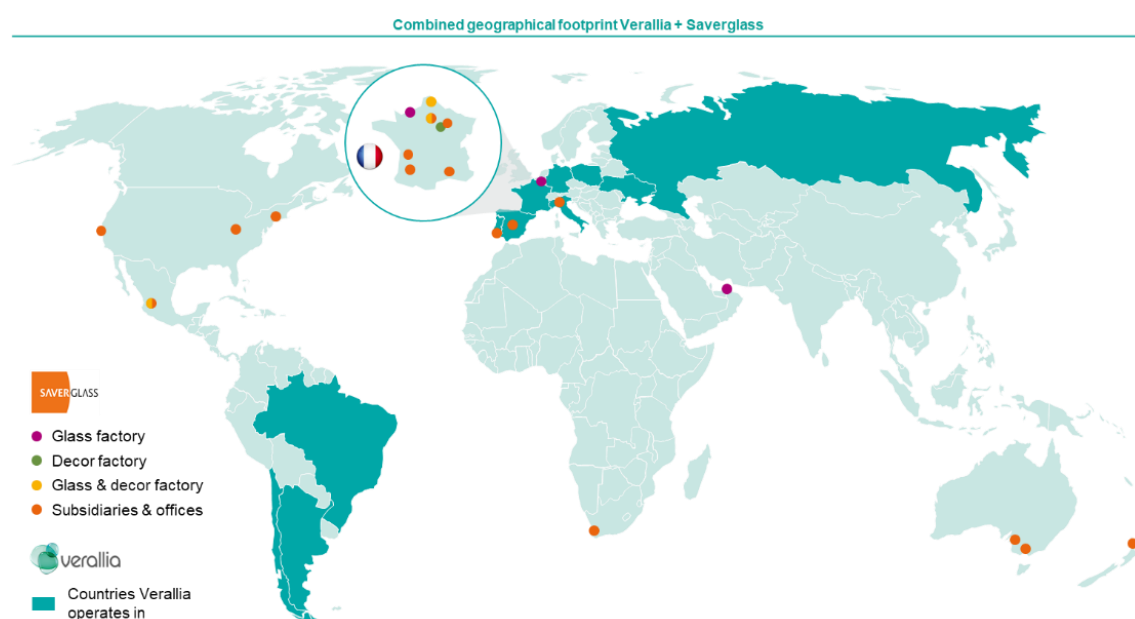


Source: Verallia, own analysis

⁴ Company information supported by own analysis

America, Mexico, New Zealand, South Africa, the Caribbean and the US as illustrated by **Figure 9**.

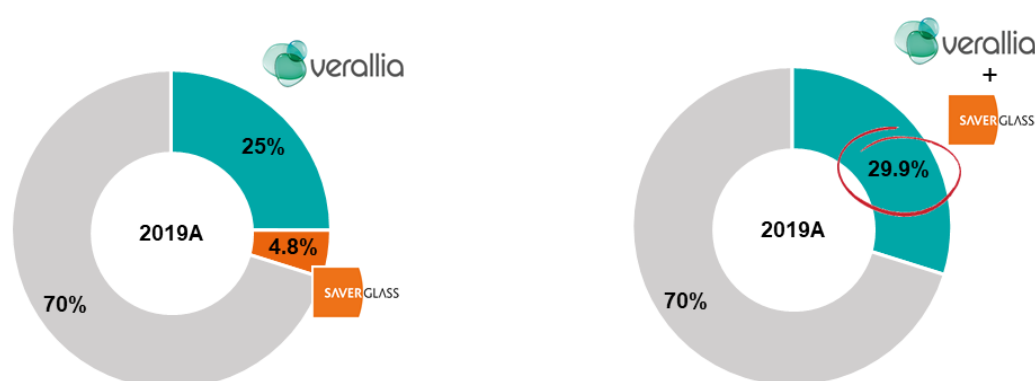
Figure 9: Combined geographical footprint



Source: Company information, own analysis

- **Gain in market share:** Due to the strong consolidation trend of the glass packaging industry, in Europe, the top five players represent c. 71% of the market. Therefore, compared to less consolidated markets, market share gains are organically hard to realise since well-established top players compete with a lower number of smaller companies to steal market share from. Combined with Saverglass, Verallia is estimated to be able to increase its market share of the by Verallia addressable market (regions SWE, NEE, LA) as shown in **Figure 10**.⁵

Figure 10: Illustrative post-acquisition pro-forma market share estimates



Source: Own analysis and estimates

- **Potential for synergies:** Since the glass bottle manufacture is a very capital-intensive process and both, Saverglass and Verallia, have production capabilities especially in France, we believe the combined company to potentially profit from lower raw material costs, resulting from an increased purchasing power. Additionally, we believe the combined company can potentially further realise SG&A synergies. However, since Saverglass discloses only very limited publicly available information to conduct a respective analysis, we have analysed precedent transactions

⁵ As the illustrative market share of Saverglass in **Figure 10** was based on Verallia's total addressable market, which is not completely covered by Saverglass, the real market share of Saverglass is estimated to be lower

with regards to announced synergies within the glass packaging and food and beverage packaging industry in order to draw conclusions about the potential synergy creation, implied by the acquisition of Saverglass. (**Table 6**)

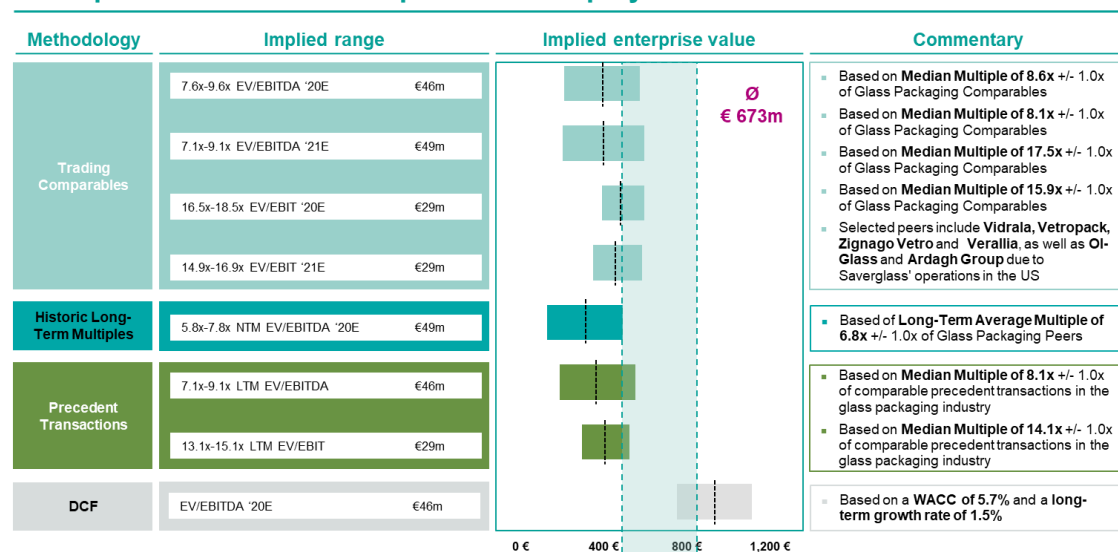
Indicative valuation of Saverglass as of Dec-20

In order to value Saverglass, we followed a to Verallia similar valuation approach and chose to additionally look at precedent transactions to incorporate the potential acquisition premium. For our DCF, we forecasted Saverglass' revenue to grow in line with market values of France's glass packaging industry, as Saverglass does not disclose a detailed country split and assumed constant market shares going forward.⁶ We based our WACC on Saverglass' peers, by determining their average unlevered beta and used their respective average capital structure to relever it. We chose the 10-year French government bond yield for the risk-free rate and used a synthetic rating by Damodaran to calculate the cost of debt. Finally, we used the same market risk premium as for Verallia. Our valuation implies an enterprise value of €673m and an equity value of €489m.

Table 5: Indicative valuation of Saverglass

Based on the presented methodologies, Saverglass' indicative enterprise value of €673m equates to an equity value of €489m

SAVERGLASS



Source: Own analysis and estimates, CapitalIQ as per 31-Dec-20

Merger Model – Input assumptions and implications

In the following section, additionally to the beforehand described **strategic rationales**, we will further detail the input assumptions and value creation scenarios of a potential acquisition of Saverglass by Verallia. Due to the potential launch of a sale of Saverglass as early as in H2 2020, we base our calculations on a lock box closing date as of 31-Dec-20.⁷

⁶ Our forecast is based on constant margins, market value growth is based on GDP growth estimates from IMF

⁷ Due to the nature of Saverglass being a private company and therefore, little publicly available information, we assume a lock box closing date as of 31-Dec-20, even if the acquisition is announced in H1 2021

Potential financing structure of the acquisition

Verallia has the possibility to finance the acquisition with cash, debt or stock. We took a closer look at the respective options and determined Verallia's firepower.

Cash

Usually, **cash** constitutes the cheapest option to finance a transaction. To calculate Verallia's maximum available cash consideration, we looked at the pre-deal combined cash balance and established a conservative minimum cash balance by applying the 25th percentile of the cash as percentage of revenue ratio of the peer group (5.5% of combined revenue), resulting in a cash availability of c. €106m.

Debt

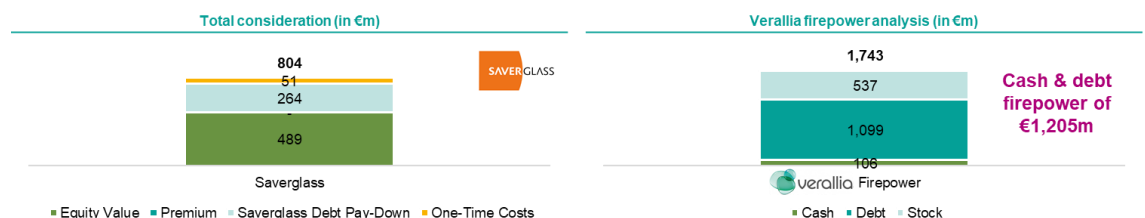
Verallia could also use **debt financing**. Historically, Verallia was able to take on debt at a rather low contractual interest rate of EURIBOR (with floor 0%) + 1.50% margin. In order to determine the amount of leverage Verallia might be able to take on, we looked at the 60th percentile of total debt/EBITDA ratios of the peer group, which stood at 4.6x, still well below 5.0x adjusted EBITDA, the maximum leverage ratio set out by Verallia and applied it to the pro-forma EBITDA of the NewCo. We think this leverage ratio is justified, keeping in mind the strong cash generation of Verallia in the past and continuous deleveraging.

Stock

Additionally, Verallia could finance the transaction by **issuing stock**. However, we believe Verallia will unlikely issue new shares, since we expect the company to be able to raise sufficient debt and, therefore, avoid giving up ownership and diluting its existing shareholder base for a share price, which is according to our valuation below its fair value.

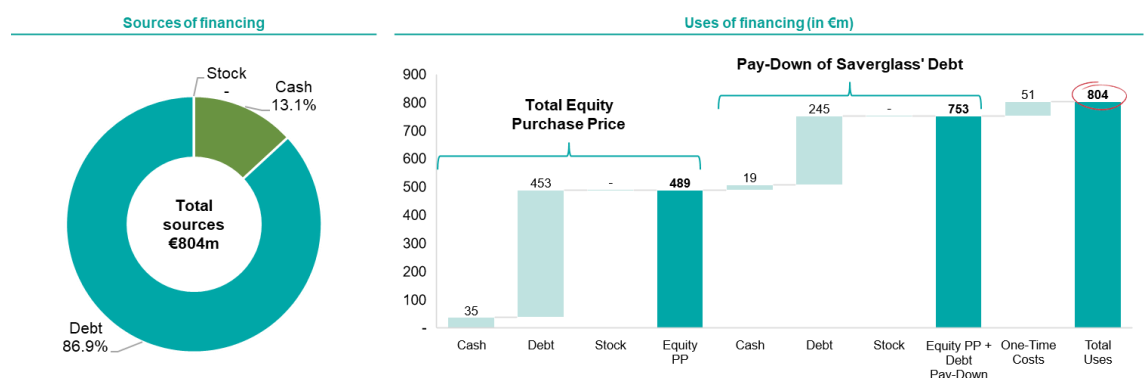
Following the assumptions above, we determined Verallia's firepower to be €1,743m⁸, which significantly exceeds the total consideration needed to purchase Saverglass and concluded the financing structure as shown in **Figure 12**.

Figure 11: Saverglass consideration and Verallia firepower analysis



Source: Own analysis and estimates

Figure 12: Potential transaction sources & uses table



Source: Own analysis and estimates

⁸ Assuming the issuance of stock, giving up 15% of the NewCo ownership

NewCo synergy and value creation analysis

Synergy analysis

As already stated in prior sections, due to the lack of detailed information available on Saverglass, a comprehensive and thorough analysis based on Saverglass' and Verallia's financial data is not possible. We have, therefore, looked at over 180 transactions within the glass packaging and general food and beverage packaging industries⁹ since 2005, with regards to announced and realised synergies, to determine the potential synergy level, as further illustrated by the table below.

Table 6: Analysis of historically announced synergies within the food and beverage packaging industry

| Analysis 1 | | | | | | | | Synergies as % of TargetCo's | | | | | Synergy target realized? | | |
|---|------------------|--------|------------------|-------------------------|-------------------------|-------------------------------|-------------------------|------------------------------|-------|-------|--------|----------|--------------------------|------|------|
| Date | Target | Buyer | EV | Full synergies estimate | Synergy phase-in year 1 | Synergy phase-in year 2 | Synergy phase-in year 3 | Sales | COGS | SG&A | EBITDA | | | | |
| 27/01/2020 | | | 816 | 20 | n/a | 100% | 100% | 5.1% | n/a | n/a | 26.7% | n/a | | | |
| 08/03/2019 | | | 5,293 | 150 | 50% | 100% | 100% | 3.5% | 5.9% | n/a | 22.3% | Exceeded | | | |
| 16/11/2017 | | | 403 | 20 | n/a | 100% | 100% | 4.3% | n/a | n/a | 27.4% | n/a | | | |
| 23/01/2017 | | | 955 | 15 | 100% | 100% | 100% | 2.7% | n/a | n/a | 15.2% | n/a | | | |
| 25/08/2016 | | | 650 | 50 | n/a | n/a | 100% | 4.5% | 5.2% | 41.6% | 48.5% | Exceeded | | | |
| 31/07/2015 | | | 2,237 | 50 | n/a | n/a | 100% | 2.4% | 3.3% | 19.7% | 16.5% | n/a | | | |
| 13/05/2015 | | | 1,919 | 30 | 27% | 50% | 100% | 3.2% | 5.6% | 35.6% | 10.8% | n/a | | | |
| 19/02/2015 | | | 7,520 | 300 | n/a | n/a | 100% | 5.0% | 10.3% | n/a | 34.1% | Exceeded | | | |
| 14/01/2013 | | | 1,267 | 60 | n/a | n/a | 100% | 3.7% | n/a | n/a | 23.0% | Expected | | | |
| 01/06/2011 | | | 2,974 | 50 | 60% | 100% | 100% | 1.6% | 2.8% | 5.0% | 13.8% | n/a | | | |
| 13/04/2011 | | | 2,728 | 50 | 20% | 60% | 100% | 2.0% | 2.4% | 27.6% | 13.6% | n/a | | | |
| Transaction within the glass packaging industry | | | | Average | 51% | 87% | 100% | 3.4% | 5.1% | 25.9% | 22.9% | | | | |
| Analysis 2 | | | | | | | | | | | | | | | |
| In €m | Synergy analysis | Metric | Synergy in value | COGS | Synergy % to COGS | Synergy savings | '21E | '22E | '23E | '24E | '25E | '26E | '27E | '28E | '29E |
| Synergies in % of TargetCo Sales | 3.4% | 500 | 17 | 252 | 6.8% | Cost of goods sold Saverglass | 250 | 262 | 272 | 283 | 293 | 301 | 309 | 315 | 320 |
| Synergies in % of TargetCo EBITDA | 22.9% | 50 | 11 | 252 | 4.5% | Cost of goods sold savings | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% |
| Realization (%) | | | | | | | 51% | 87% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| Chosen synergy level as % of Saverglass COGS | | | | | | | 4.5% | Annual COGS savings | | | | | | | |
| | | | | | | | 6 | 10 | 12 | 13 | 13 | 14 | 14 | 14 | 14 |

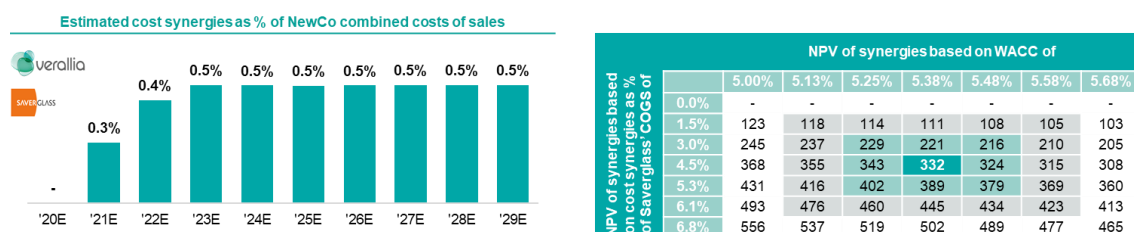
Source: Company information, own analysis and estimates

Table 6 (Analysis 1) shows the level of synergies that was announced at each transaction, at what percentages these synergies were phased-in, and finally, sets the announced targeted synergies in relation to the sales, COGS, SG&A and EBITDA of the respective target company. However, as most companies did not disclose a detailed split of expected synergies by cost type (COGS or SG&A), it is not possible to look at these cost items individually. We thus looked at the average announced synergies as percentage of the sales and EBITDA of the acquired targets and, for our analysis' purposes, used this percentage to determine the equivalent level of synergies as a percentage of Saverglass' COGS (**Table 6**, Analysis 2). Based on the analysis, the estimated synergy level as percentage of Saverglass' COGS was determined at 6.8% and 4.5% based on the sales and EBITDA approaches, respectively. We then chose to apply the average synergy phase-in percentages of the transactions and set, based on the analysis above, the estimated level of synergies to the more conservative result of 4.5% of Saverglass' COGS. However, for the following sensitivity analysis, we chose to show the PV of the underlying synergies based on scenarios, ranging from no synergy realisation to 6.8%, the higher result from **Table 6** (Analysis 2) at different WACCs for the NewCo, which will be explained in the following sub-section:¹⁰

⁹ Due to the limited number of transactions with comparable size and announced deal values in the glass packaging industry, we have additionally screened the transaction history of other listed packaging players, focused on other packaging materials than glass within the food and beverage industry, including Berry Global, Ball Corp., Silgan Holdings, Huhtamaki, Sealed Air, SIG and Crown Holdings for transactions with an enterprise value above €100m

¹⁰ According to the deloitte study "Unlocking the full potential of M&A", announced cost synergies as percentage of the combined company's cost of sales are estimated at <1%, 1-5%, 5-10%, 10-25% and >25% by 27%, 46%, 15%, 10% and 2% of the analysed transactions, respectively

Figure 13: Synergy impact analysis



Source: Own analysis and estimates

Value creation analysis for Verallia

As from the perspective of Verallia, the acquisition is only beneficial if Saverglass' in the future expected discounted cash flows exceed the paid acquisition price, we conducted a return sensitivity analysis based on the above-described synergy levels and a range of different WACCs for the NewCo. Due to the new post-transaction capital structure, we do not believe the use of Verallia's WACC to be appropriate for the analysis. To calculate the NewCo's implied WACC, we determined the necessary beta and capital structure, similar as for Saverglass, by looking at the unlevered beta and capital structure of the peer group (incl. Verallia), due to the missing underlying market values of the NewCo's post-transaction capital structure. Depending on whether using the average or median of peer data, for the return sensitivity analysis, the used WACCs range from the lowest by the peer approach possibly calculated WACC towards Verallia's and Saverglass' standalone WACCs in order to cover and quantify the impact of various discount rates on the valuation of the NewCo.

Table 7: NewCo enterprise value and return sensitivity analysis

| Enterprise value of NewCo based on WACC of | | | | | | | |
|--|-------|-------|-------|-------|-------|-------|-------|
| | 5.00% | 5.13% | 5.25% | 5.38% | 5.48% | 5.58% | 5.68% |
| 0.0% | 6,921 | 6,680 | 6,456 | 6,245 | 6,085 | 5,933 | 5,788 |
| 1.5% | 7,013 | 6,769 | 6,542 | 6,328 | 6,166 | 6,012 | 5,865 |
| 3.0% | 7,106 | 6,859 | 6,628 | 6,412 | 6,247 | 6,091 | 5,942 |
| 4.5% | 7,198 | 6,948 | 6,714 | 6,495 | 6,328 | 6,170 | 6,019 |
| 5.3% | 7,245 | 6,993 | 6,758 | 6,538 | 6,370 | 6,210 | 6,059 |
| 6.1% | 7,293 | 7,039 | 6,802 | 6,580 | 6,411 | 6,251 | 6,098 |
| 6.8% | 7,340 | 7,084 | 6,846 | 6,623 | 6,453 | 6,291 | 6,137 |

| Total return of the acquisition based on WACC of | | | | | | | |
|--|-------|-------|-------|-------|-------|-------|---------|
| | 5.00% | 5.13% | 5.25% | 5.38% | 5.48% | 5.58% | 5.68% |
| 0.0% | 111 | (130) | (355) | (565) | (725) | (877) | (1,022) |
| 1.5% | 203 | (41) | (268) | (482) | (644) | (798) | (945) |
| 3.0% | 296 | 48 | (182) | (398) | (563) | (719) | (868) |
| 4.5% | 388 | 138 | (96) | (315) | (482) | (640) | (791) |
| 5.3% | 435 | 183 | (52) | (272) | (440) | (600) | (751) |
| 6.1% | 482 | 229 | (8) | (230) | (399) | (559) | (712) |
| 6.8% | 530 | 274 | 36 | (187) | (357) | (519) | (673) |

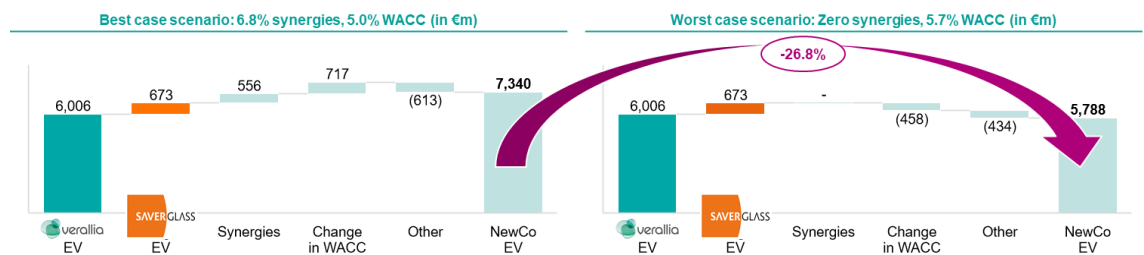
| NPV gain/(loss) based on NewCo WACC of (Compared to Verallia WACC) | | | | | | | |
|--|-------|-------|-------|-------|-------|-------|-------|
| | 5.00% | 5.13% | 5.25% | 5.38% | 5.48% | 5.58% | 5.68% |
| 0.0% | 676 | 435 | 210 | - | (160) | (313) | (458) |
| 1.5% | 685 | 441 | 213 | - | (162) | (317) | (464) |
| 3.0% | 694 | 447 | 216 | - | (165) | (321) | (470) |
| 4.5% | 703 | 453 | 219 | - | (167) | (325) | (476) |
| 5.3% | 708 | 456 | 220 | - | (168) | (327) | (479) |
| 6.1% | 712 | 459 | 222 | - | (169) | (329) | (482) |
| 6.8% | 717 | 462 | 223 | - | (170) | (332) | (485) |

Source: Own analysis and estimates

As shown in **Table 7**, the estimated enterprise value of the NewCo ranges from €5.8bn in the scenario of no synergies and Saverglass' WACC to €7.3bn in the scenario assuming the highest level of cost synergies and the lowest calculated WACC. The presented scenarios equate to a total return/(loss) of the acquisition of €(1.0)bn and €530m, respectively¹¹. Furthermore, the implications of the used discount rate on the NewCo's valuation are presented in **Table 7** (Sensitivity 3). Therefore, our analysis indicates that the viability of the acquisition is strongly dependent on the realisation of sufficient synergies and other variables like the used discount rate. Finally, **Figure 14** shows the illustrative enterprise value bridge based on the two above-described scenarios.

¹¹ Return calculated as EV NewCo minus EV Verallia minus total consideration paid for Saverglass; Enterprise values of the NewCo and Verallia are based on our DCF valuations

Figure 14: Illustrative NewCo enterprise value bridge



Source: Own analysis and estimates

For a detailed overview of the NewCo's financial statements and valuation, please refer to the respective section in the **Appendix**.

Value creation analysis for shareholders

Furthermore, apart from potential benefits for Verallia, resulting from the transaction, shareholders could also gain value from the acquisition. Due to SaverGlass' private nature, to date, public investors lacked the opportunity to invest in SaverGlass on a standalone basis. Therefore, as a result of the combination, shareholders are exposed to a new combined company, with an increased market share and global presence and, based on the above-described model inputs, profit from accretive earnings per share (EPS) and higher dividend payments going forward. **Table 8** demonstrates the EPS accretion/dilution scenario based on the explained range of synergies by year.

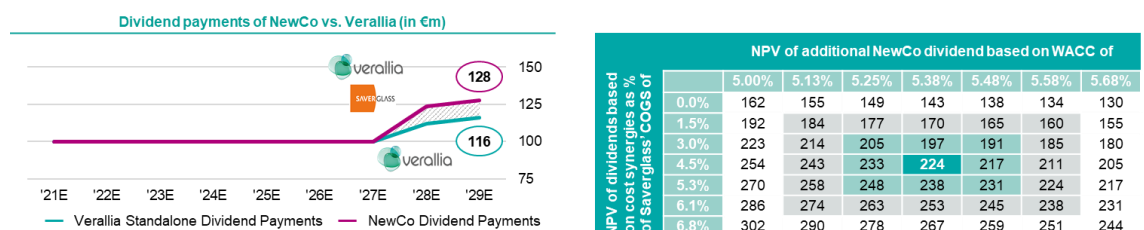
Table 8: Post-transaction EPS accretion/(dilution)

| EPS accretion/(dilution) post-transaction by year | | | | | | | | | | | |
|---|------|--------|--------|--------|-------|-------|-------|-------|-------|-------|-------|
| Based on cost synergies as % of SaverGlass' COGS of | | '20E | '21E | '22E | '23E | '24E | '25E | '26E | '27E | '28E | '29E |
| | 0.0% | (3.1%) | (0.5%) | (1.2%) | 3.7% | 5.0% | 5.7% | 7.8% | 7.8% | 6.6% | 6.7% |
| | 1.5% | (3.1%) | 0.5% | 0.5% | 5.7% | 6.9% | 7.6% | 9.5% | 9.4% | 7.9% | 7.9% |
| | 3.0% | (3.1%) | 1.5% | 2.2% | 7.7% | 8.8% | 9.4% | 11.2% | 11.0% | 9.2% | 9.2% |
| | 4.5% | (3.1%) | 2.5% | 3.9% | 9.8% | 10.8% | 11.2% | 12.9% | 12.6% | 10.5% | 10.4% |
| | 5.3% | (3.1%) | 3.0% | 4.8% | 10.8% | 11.7% | 12.2% | 13.8% | 13.5% | 11.2% | 11.1% |
| | 6.1% | (3.1%) | 3.5% | 5.7% | 11.8% | 12.7% | 13.1% | 14.7% | 14.3% | 11.8% | 11.7% |
| | 6.8% | (3.1%) | 4.0% | 6.6% | 12.9% | 13.7% | 14.1% | 15.5% | 15.1% | 12.5% | 12.4% |

Source: Own analysis and estimates

Furthermore, as mentioned above, as a result of the acquisition of SaverGlass, shareholders of the NewCo are estimated to benefit from higher dividend payments going forward, compared to Verallia on a standalone basis, based on a similar payout ratio. **Figure 15** quantifies the respective figures.

Figure 15: Illustrative Overview of Estimates Dividend Payments (Verallia vs. NewCo)



Source: Own analysis and estimates

Recommendation for the proposed transaction

As proven by the respective numbers from our analysis above, we believe an acquisition of Saverglass by Verallia could bear fruits, however, only in scenarios of strong synergy realisation and other favourable developments, e.g., lower discount rate. Therefore, we see the acquisition with a critical view and recommend Verallia to acquire Saverglass, only, and only if, the numbers based on further analyses and internally provided data of both companies are more promising, as the significant qualitative rationales of the transaction are not alone sufficient to demonstrate a viable investment case.